

BEHAVIOR ANALYSIS (MOTION) OF THE PRICES BEFORE AND AFTER APPLYING OF VALUE ADDED TAX (VAT) IN KOSOVO

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Abstract:

This paper will contain analysis of price movement for the year of 2000 until the introduction of value added tax in Kosovo (1 July 2001), and after applying of the VAT, where will be included sec half of year 2001 and complete year of 2002. Also the price movements will be analyzed for the year 2008 and 2009 since is known that scale of taxes of added value has been increased from 15% to 16%. 16% norm has been being applied from 01.01.2009. During the analyses of price movements will be given special importance issues that have substantial effects of bring specific conclusions. In this paper will be analyzed also the cause of price increasing and decreasing in Kosovo in the periods mentioned above.

Keywords: Behavior analysis, Value Added Tax, Kosovo.

Introduction:

Value added tax is a form of taxation by which taxable value that the seller has added the purchase price, sales, production and services taxed at each stage of the cycle of circulation. The tax base of this tax is the difference between selling price and the supplier. So the value added tax is a tax on consumption.¹⁰²

One of the conditions states must meet to become a member of the European Union is obligated the introduction of this tax (VAT) on their tax system VAT is spreading very quickly, as in many infectious diseases other countries. Thus, in the 70s of the twentieth century this tax in its tax systems have introduced the 28 states in the 80 - 48 countries in 90 years more than 100 countries.

¹⁰² Financial right and financial value, Zagreb, page 280

This number does not end with that, but growing every year, therefore, according to Mark Bloomfield and Margo Thorning, not only the VAT tax is really simple, but it is the most popular tax in the world.¹⁰³

It is thought that in terms of taxation, the end of XIX century and first half of the twentieth century is characterized by the income tax on income, and VAT is the biggest innovation in the field of taxation in the last decades of the last century.¹⁰⁴

1. Oscillation of prices, in Kosovo in the period 2000/2009

Consumer Price Index (CPI) is a relative indicator which shows the changes or the movement of retail prices for products and services and services consumed by households in the period of time, involved in groups and subgroups, classified according to the nomenclature called the International Classification of individual consumption by destination (COICOP).¹⁰⁵

This statistical parameter has a special significance for the economic, financial, country, financial policy development, measurement of living standards, harmonization of personal income, trade flows, etc.

Consumer Price Index (CPI) is constructed according to European standards and methodologies and these data regularly used by local and international institutions. Statistical Office of Kosovo (SOK) consumer price index (CPI) began to publish in September 2002. Consumer prices have started to gather in May of 2002, which is considered the base month. CPI is calculated by taking into account the observation of price movements of various commodities were grouped and given different weights.

At first we analyze the price movement 2000-2008. And we will continue with the analysis of price movement for the year 2000 to the application of value added tax in Kosovo (1 July 2001), and after the implementation of VAT in Kosovo, which will include the second half of 2001 and 2002 in its entirety. Also, the price movement will analyze for 2009, considering that the tax rate of VAT in

¹⁰³ David Williams, Value add tax, International monetary fund, Washington, 1996

¹⁰⁴ C. Shoup, Professor at Columbia University, Public Finance, Chicago 1969, page 250.

¹⁰⁵ Consumer price index, Statistical office of Kosovo, Jul 2009, page 1.

Kosovo increased from 15% to 16%, which rate (16%) began to be implemented on January 1, 2009.

When analyzing price movement we should note two issues that have substantial impact on the conclusions should be taken:

- Under one has to do with the availability of data and their source. Given that the Statistical Office of Kosovo has begun the publication of the CPI as of May 2002, the 2000/2001 period and the time period January-April 2002, before and after implementation of VAT. The data is reliable in this respect seem to be those published by the Ministry of Economy and Finance (in cooperation with the Central Fiscal Authority) in Monthly Macroeconomic Monitor, (Daliq, S.et.al. 2008).
- Under the two has to do with the quality and comparability of these data. Unlike the CPI, calculated by SOK based on data collected on a regular basis for a large number of articles, the price index published by the MEF includes a smaller number of items.

The data from the table and chart below show a significant increase in prices (index 128.26 in December 2008) throughout the postwar period, despite the fact that this increase was not uniform from year to year.

Secondary period is characterized by two years of high growth of prices (2001-8.76% and 2007 - 10.50%), two years with a lower rate of price increase than the previous two years (2000-3.92% and 2002 -3.82%), four years had the lowest rate of price increase (2003 to 0.50%, 2005 to 0.70%, 2006-1.10% and 2008 to 0.50%) and one year we reduce price (2004 - with negative rate of 3.80%).

Table 1 Increase in prices (index 128.26 in December 2008)

Year	Index (January 2000 = 100)	Annual percent change
2000	103.92	3.92
2001	113.02	8.76
2002	117.34	3.82
2003	117.93	0.50
2004	113.45	-3.80
2005	114.24	0.70
2006	115.50	1.10
2007	127.62	10.50
2008	128.26	0.50

2. Oscillation price prior to the implementation of VAT

Based on macroeconomic data from the monthly Monitor (MMM), 2000 is characterized by low-price increases of 3.9 (monthly rate of increase/decrease the price for January 2000 is not taken into account for the lack of data). As seen from the table and graph (below), the year 2000 was characterized by large swings in the monthly rate of price movement, and the discount of 2.95% in March and 31.2% increase in December.

Table 2 Macroeconomic data from the Monthly Monitor (MMM), 2000

YEAR	MONTH	Index (January 2000=100)	Annual percent change
2000	January	100,00	-
	February	98.69	-1.31
	March	95.77	-2.95
	April	96.02	0.26
	May	97.38	1.42
	June	98.22	0.86
	July	98.10	-0.12
	August	98.73	0.46

	September	99.73	1.02
	October	99.83	0.10
	November	101.57	1.74
	December	103.92	2.31

The price rise has continued with increased intensity during the first half of 2001, before the implementation of value added tax (VAT), resulting in one of my high annual rates of prices during the post war period this level of 6.95% (June 2001 or December 2000).

As seen from the table the first half of 2001 is characterized by a continued increase of prices in each month compared with December 2000. The highest increases have in May, to 5.64%, and June, 6.95%.

This shows that the highest increases in prices have existed in the past two months before the application of VAT. Oscillation prices in Kosovo in the period of before implementing of VAT, where period inclusive January 2000 - June 2001, rising the price is too high, where the index is 111.14% (June 2001, January 2000), an increase of 11.14%.

The reasons for these increases are manifold, but we will mention a few:

- Increased prices in this period more are imported, unfortunately it imports most of the items, and Kosovo has extremely high import prices.

This support with the data that the imports share of final Consumption of households is, in 2004 (44.6%), 2005 (46.6%) 2006 (47.7%) and 2007 (49.6%),¹⁰⁶

- Due to fear the application of VAT, which was due to ignorance of the functioning and lack of proper education implementers of VAT,
- psychological aspect,
- speculative aspect.

¹⁰⁶ SOK- Gross domestic product, 2004-2007, page 10.

Table 3 the imports share of final Consumption of households

HALF OF THE FIRST YEAR	MONTH	KOSOVO		EUROZONE	
		IND. (December 2000=100)	Annual change on %	IND. (December 2000=100)	Monthly Annual change on %
2 0 0 1	January	102.74	2.74	99.81	-0.19
	February	102.91	0.17	100.09	0.28
	March	104.16	1.21	100.65	0.56
	April	103,86	-0.29	101.30	0,65
	May	105.64	1.71	101.77	0.46
	June	106.95	1.24	101.96	0.18

From the above table it is evident that in the first half of 2001 prices have increased each month compared with December of 2000 in Kosovo, as well as in Euro zone.¹⁰⁷ However, this price increase is significantly higher in Kosovo, which is 6.95%, than in the Euro zone, where growth was only 1.96%, which means that in Kosovo in the first 6-month period of 2001, prices increased by 4.9% more than in the euro area countries.

3. Oscillation prices after VAT implementation

Obviously that any conclusion on price movement during before implementations of the value added tax should be drawn with reservation, given the different economic developments each year and the lack of reliable data. We here will do the analysis of price movement for the second period of 2001, when he started the application of VAT (1-July - 2001), and for 2002, which year is the first year after application VAT.

¹⁰⁷ Data from Eurozone (Statistiks in focus) Eurostat.

As seen from the table and graph below, the second half of 2001 is characterized by:

- Increased price almost invisible for the second half of 2001 and this increase was only 1.69%. During this 6-month period in two months (August and September 2001) is decreased (-1.38% and -0.17%), while in four other months have increased, in July (0.41%), October (0.07%), November (0.50%) and December (1.69%).

Whereas, if you look at price trends in the second half of 2001 in Kosovo, it is obvious that raising the price is much lower than in the first half of this year, which is 1.69% over that part, and in compared to raising prices in the euro area, is higher by 1.60% in the Euro zone, where growth was only 0.09%.

The data published by Euro stat show clearly that its impact on the monthly trend of rising prices has been between -0.27% in July 2001 and 0.65% for the month of April was of that year.

Euro zone CPI Index is expressed through the so-called MUICP.¹⁰⁸ From this we can conclude that the increase in prices in Kosovo application of VAT has not had quite an impact.

Although the experiences from other countries indicate that in the initial application of this tax is associated with immediate price increase, as a reflection of tax payers, tax effects to convey to the consumer. International Monetary Fund (IMF) has done research in 35 countries where the comparison of price movements in the first two years and two years after the application of VAT.

These researches have shown that the implementation of VAT has caused the following effects.¹⁰⁹

- 1) the immediate establishment of prices in seven (7) states,
- 2) increase the acceleration of inflation in five (5) states,
- 3) the immediate establishment of prices has been due to increasing the speed of the consumer price index in (1) state and
- 4) For the 22 countries research has shown that the application of VAT has had little or no impact on price changes.

¹⁰⁸ MUICP (Monetary Union Index Price of Consumer Prices).

¹⁰⁹ Daliq S. Madzarevic, D.Nesic. Financial rights, Zagreb. Nr. 2/96; page 220.

- 5) In Croatia, prices have risen by 2.4% in January 1998 (introduction of VAT has started on 1.01.1998), after that prices have stabilized and inflation that year was 5.4%. In 1996 inflation in Croatia was 3.4%, 1997 - 3.8%, while in 1999 - 4.4%.¹¹⁰

From these data indicate that in Croatia in the four years mentioned above inflation has been higher in 1998, started implementation of VAT.

Table 4 the data published by Euro stat, period 2001

FIRST OF THE HALF YEAR	MONTH	KOSOVO		EUROZONE	
		IND.(June 2001=100)	Annual change on %	IND.(June 2001=100)	Monthly Annual change on %
2 0 0 1	July	100.41	0.41	99.73	-0.27
	August	99.03	-1.38	99.63	-0.10
	September	98.85	-0.18	99.90	0.28
	October	100.07	1.23	100.00	0.10
	November	100.50	0.43	100.00	0.00
	December	101.69	1.18	100.09	0.09

From the above table and graph that compares prices rate growth in Kosovo and the euro area for 2001, can be observed that:

- The general level of prices in Kosovo is on the general level of prices in the euro area as a result of higher monthly rates of price increases, especially in the first half of 2001,
- monthly price changes are characterized by large swings and highlighted in Kosovo, especially in the first half of 2001, which can not be said for the second half of 2001, when began the implementation of value-added. But in the Euro zone these oscillations are significantly lower and softer.

¹¹⁰ Transition report, EBRD, London, 2003

Year 2002 is the first year that the VAT is applied, so will do an analysis of prices in this year. The total index of consumer prices in Kosovo in 2002 reached 103.82% compared with December of 2001, which shows an increase of 3.82%.

During monitoring the movement of prices in 2002 clearly observed two trends:

- The year was concluded with the general price increase of 3.82%;
- Shaking significant monthly price movements;
- Two opposite trends during the year, seen from the following table: in the first quarter coupled with rising prices, then have a price drop in five months, with the exception of May, and again last year period (September-December) is characterized by constant growth of prices.

Table 5 Movement of prices in 2002

YEAR	MONTH	INDEX (DECEMBER 2001- 100)	Monthly Annual change on %
2002	January	101.14	1.14
	February	101.24	0.09
	March	102.42	1.17
	April	101.06	-1.33
	May	102.28	1.31
	June	100.74	-1.60
	July	99.21	-1.52
	August	99.11	-0.10
	September	100.95	1.86
	October	102.59	1.62
	November	103.00	0.40
	December	103.82	0.80

Price movement in Kosovo in the period after implementation of VAT which is included the period June 2001 to December 2002. In this period, we drop the price to 2,03 % which makes it concluded that:

The implementation of VAT has no influence in rising prices, rather have a noticeable drop them from 2,03%.

4. Oscillation of prices for 2009

Value added tax in Kosovo has started to be implemented by July 1, 2001 and chargeable at the rate of 15% on the taxable value.

This tax rate is applied to the end of 2008. From a January 2009, the tax rate increased from 15% to 16%, which means increased 1%.

During 2009 the price after the shaking rate increased the value added tax by 1%. The total index of consumer prices in Kosovo in 2009 compared with 2008, decreased to an average of -2.4%.¹¹¹

As seen from the table and graph below, since 2009 are characterized by:

- drop the price for each month of 2009 compared with December 2008, with the exception of December, when there is an increase only to 0.09%, the largest falls we have in the month of May (-2.1%), July (-2.2%) and August (-2.3%)
- Based on these data, we can conclude that raising the tax rate of VAT has done nothing to increase prices, as seen from the table above.

Table 6 the total index of consumer prices in Kosovo in 2009 compared with 2008

YEAR	MONTH	INDEX (DEC.2008-100)	Monthl Annual change on %	Annual percent change
	January	100.0	0.0	-0.5
	February	99.8	0.2	-1.2
	March	100.0	0.2	-2.0
	April	98.2	-1.8	-3.5

¹¹¹ Consumer price index (2002-2009), statistical office of Kosovo, page 9.

2 0 0 9	May	97.9	-0.3	-4.4
	June	98.1	0.2	-4.0
	July	97.9	-0.2	-3.7
	August	97.7	-0.2	-3.0
	September	98.1	0.4	-2.7
	October	99.1	1.1	-2.6
	November	99.4	0.3	-1.3
	December	100.9	0.6	-0.1
AVER. YEAR 2009		98.9	-2.4	

Conclusion:

On the basis of these data listed above, one can conclude that:

- In the before implementation of VAT have a significant increase in prices, which is 11, 14%
- In the after application of VAT have a price reduction for 2, 03% and
- In the building tax rate of VAT have an invisible increase prices, it is only 0, 9%.

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